



DEPARTMENT OF NATURAL RESOURCES

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 2003-49  
June 6, 2003  
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AUDIT REPORT



Office of  
Missouri State Auditor  
Claire McCaskill

June 2003

**Department of Natural Resources could improve handling of various state grants**

This audit focused on management practices and compliance with state laws, regulations, and agency policies in several areas of state grants including: historic preservation, soil and water, storm water, solid waste management, and sewers. The audit included transactions of the Department of Natural Resources (DNR) during fiscal years 2000, 2001, and 2002. The following highlights our findings:

**More defined conflict of interest guidelines needed for historic preservation grants**

The DNR administers the state's Historic Preservation program, which helps qualifying preservation projects receive state and federal money. The state pays a 40 percent match of aggregate costs for such projects, which totaled approximately \$897,000 for the three fiscal years in this audit. Auditors reviewed the management of various preservation grants, including the handling of grants involving current DNR employees and employee relatives as interested parties. The audit noted two instances where documentation was not adequate or sufficient to address potential conflicts of interest. (See page 5)

**Some storm water control grant expenditures appeared overstated**

The DNR administers several grant programs funded by general obligation bonds, including water pollution control, rural water and sewer grants, and storm water control grants. The DNR projected expenditures of \$12.5 million in fiscal year 2003 appear to be overstated. Total rural water and sewer grants awarded, but not spent, as of July 2002, totaled approximately \$5.7 million. An additional \$4.3 million in project awards is anticipated. Based on prior years' data, it is unlikely all of these projects will be completed by the end of fiscal year 2003. Auditors recommended the DNR reevaluate its method for projecting grant expenditures to ensure the sale of bonds is necessary to meet current obligations. (See page 10)

**Soil and water commission should study how tax revenues are used**

In 1984, voters approved a sales tax for soil and water conservation and for state parks. The amount of this sales tax allocated to soil and water conservation averaged over \$35 million in each of the audit's three fiscal years. Auditors found the fund's balance steadily increased because the soil and water program was spending less than it was collecting each year. Department officials have not compared the soil conserved to the resources spent annually or determined long-range costs associated with meeting these future goals to determine how the sales tax revenue should be used. In addition, auditors found several of the 114 Soil and Water Conservation Districts received grants to administer landowner grants, which exceed 50 percent of the actual landowner grants distributed. (See page 14)

YELLOW SHEET

### **Department needs to more closely monitor soil and water cost-share program**

The soil and water cost-share program reimburses landowners for up to 75 percent of installation costs of various approved erosion control measures. Landowners apply for the funding, department technicians inspect projects to make sure specifications are met, and landowners receive the money upon approval by the soil and water program. Auditors found landowners were not required to submit cancelled checks to support the amounts listed on invoices. One landowner said he did not have a canceled check because he bartered for the services and did not pay for them. In addition, the department did not always require the applicants to submit itemized invoices, which would assure the items purchased are eligible costs. (See page 22)

### **No centralized system to review grants for storm water or solid waste management**

Department officials could not provide a list of all state and federal grants disbursed to local entities. As a result, data cannot be reviewed for all grants and no centralized accounting section is responsible for managing all the grants. In addition, the Clean Water Commission only reviews a brief description of a storm water project prior to approving funding. Detailed project costs are not part of the brief description, and are not reviewed before funding. As a result, two of five approved projects reviewed by auditors were later deemed ineligible by department project coordinators because they were not storm water related. Department officials also allow local coordinating committees to redistribute storm water grant funds deemed ineligible to alternative projects without the commission's approval. (See page 26)

### **Better documentation and final inspections needed for sewer grants**

The DNR administers various sewer grants to assist communities throughout the state. The department disbursed approximately \$13.5 million in such grants over the audit's three fiscal years. Auditors found department officials did not always retain proper supporting documentation for reimbursement claims. In addition, the DNR did not require an adequate final inspection to ensure all requirements of the grant agreement were met before issuing the final grant payment and did not take timely follow up action on projects non-compliant with the grant agreement. (See page 36)

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## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

Honorable Bob Holden, Governor  
and  
Stephen M. Mahfood, Director  
Department of Natural Resources  
Jefferson City, MO 65102

We have audited the Department of Natural Resources. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2002, 2001, and 2000. The objectives of this audit were to:

1. Review certain management practices and financial information for compliance with applicable statutes, regulations, and agency policy in the areas of historic preservation, soil and water, storm water grants, solid waste management grants, and sewer grants.
2. Review the efficiency and effectiveness of certain management practices and operations in the areas noted above.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the department's revenues, expenditures, contracts, and other pertinent procedures and documents, and interviewed department personnel.

As part of our audit, we assessed the department's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the Department of Natural Resources.

The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Natural Resources.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill  
State Auditor

June 28, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

DEPARTMENT OF NATURAL RESOURCES  
MANAGEMENT ADVISORY REPORT –  
STATE AUDITOR’S FINDINGS

<b>1.</b>	<b>Historic Preservation Program</b>
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As authorized by the National Historic Preservation Act of 1966, the Historic Preservation Fund (HPF) is a program of federal matching grants designed to assist the various states in carrying out historic preservation activities. In Missouri, this program is administered by the Department of Natural Resources (DNR), through the Historic Preservation Program (HPP). The HPF grants can be used for only certain allowable costs. For the fiscal years ended September 30, 2002, 2001, and 2000, total expenditures of federal and state funds were \$1,382,962, \$1,762,092, and \$1,639,532, respectively, including administrative costs and HPP projects. A 40 percent state match of the aggregate costs of carrying out projects and programs is required by federal regulations. The total amounts expended for HPP projects for the fiscal years ended June 30, 2002, 2001, and 2000 were \$326,271, \$350,928, and \$219,971, respectively.

The HPF grant application specifies certain requirements for grant eligibility. Some of those requirements include the following:

- The application must be received or postmarked by August 31.
- All grant recipients must have a source of local funds or services sufficient to cover 40% of the requested grant amount.

When an application is received, it is assigned to a review team of two to four professional staff. Each reviewer evaluates the application against similar type projects. During the evaluation process, a score is given for each of the following requirements: threshold, program, application, technical, and past performance. The total from each score sheet is added to all applicable score sheets to calculate a total score for the project. A higher score increases the chance for the project to be awarded a grant under the category type.

A. We reviewed the grant awarded to the city of Jefferson City and noted the following concerns:

1. The project is a multiple property submission to the National Register of Historic Places submitted by the city of Jefferson on behalf of the Old Munichberg Association. The cost of the project was \$9,900, with the federal grant award totaling \$5,940. The association's president is the wife of the Director of the DNR. The Director's wife also owned two pieces of property in the district slated to be included in the nomination. One of the benefits of owning property included in the National Register is being eligible for federal and state tax credits. The DNR Director signed the



preliminary approval of the grant awarded to the city of Jefferson in November 2000. Because of his personal association with this project, department staff indicated the DNR Director then verbally recused himself and did not want any further involvement with this project; however, this was not documented. Although the DNR Director signed the grant award in March 2001, subsequently someone crossed through the document; however, the reasons and the date the document was crossed through were not documented. In a letter dated May 1, 2001, the DNR Director formally recused himself from the project and assigned his responsibilities, as the State Historic Preservation Officer (SHPO), of approving and overseeing this project grant to the Director of State Parks. It is unclear why under the circumstances the DNR Director did not immediately recuse himself or adequately document his verbal recusal and further involvement with this grant application. The Director of State Parks signed a new grant agreement on April 2, 2001, one month before the DNR Director documented his reassignment of duties related to this grant application. The grant project was completed on September 30, 2002, and the properties were placed on the National Register of Historic Places on November 22, 2002.

Although the Director of the DNR eventually recused himself from the project due to the conflict of interest situation, he had already given his approval. In addition, the DNR Director failed to document his verbal recusal to staff and the details surrounding the signing of the grant award in March 2001. To avoid this conflict of interest, the DNR Director should have had no involvement in the consideration or evaluation of this project.

2. An employee in the DNR director's office was approved for inclusion on the Historical and Architectural Historical Consultants' list by a review panel made up of four members recommended by the HPP staff and other interested parties. This list represents consultants who have been reviewed and evaluated by an independent panel and recommended for inclusion on a list of consultants that can assist with historic preservation activities. This employee prepared the nomination for the Munichberg project. The employee was paid a consultant's fee of \$9,900 by the city of Jefferson for preparing the nomination.

The program requires, as evidenced by their consultant application form, professional consultants to have a background in history, archeology, architectural history, architecture, or historic architecture in accordance with Section 36 Code of Federal Regulations (CFR) 61. Although this employee did not meet these specific requirements, the review panel approved her inclusion on the list because of her prior experience with the HPP.

In addition, this employee also owned property in the Munichberg area to be included in the nomination and stood to benefit from the approval of the nomination through federal and/or state tax credits. The employee's involvement in the grant project and her relationship to the DNR gives, at a minimum, the appearance of a conflict of interest.

Chapter 3 of the HPF grants manual, Section 3.2.c. states, "An apparent conflict of interest ...exists when a person may appear to have an unfair competitive advantage because of his/her relationship with the SHPO organization." The manual defines a person as "employees, agents, partners, associates, or family members..." The situations noted in parts A.1. and A.2. appear to have violated the conflict of interest provisions in the grants manual. The grants manual also states that when there is a suspected violation of the conflict of interest policy or requirements, the SHPO organization must advise the National Park Service (NPS) of the matter, pursue available state and local legal and administrative remedies, take appropriate remedial action with respect to any allegations or evidence coming to its attention, and advise the NPS of the ultimate disposition of any matter. Such violations may result in cost disallowances or other sanctions. In addition, the grants manual states that State Ethics officers are authorized to determine the applicability of these requirements to individual situations in regard to state employees and to resolve employee conflict of interest situations.

- B. A member of the Missouri Advisory Council on Historic Preservation is also listed on the consultants' list. The HPF grants manual specifically discourages board members from being included on any lists of qualified consultants distributed to the public by the SHPO.
- C. During our review of the program, we noted twelve projects that received grant awards exceeding 60 percent of the project's cost during the three fiscal years ending June 30, 2002, 2001, and 2000. According to the program director, discretionary grants up to 100 percent of the project costs are awarded to certain projects if the program deems it worthy and the grantee lacks funding for the local match. To determine the justification for higher grant funding levels, we reviewed one of these twelve projects (the Redding-Hill House development project) with a total project cost of \$24,173, and noted the following problems:
  - 1. The grantee did not provide a local match for the project. While federal regulations do not require the subgrant to have a local match (as long as the total grant to the State is matched at the required rate during the approved grant period), the HPP requires a local match as stated specifically in the grant application. In addition, there was no documentation in the file to explain and support the program's decision to award a 100 percent grant to the project.

2. The application was received on September 8, 2000; however, the application deadline is August 31. There was no documentation in the project file to support a postmark date prior to or on August 31.
3. There was no supporting documentation for the total score used in the evaluation process. The scoring sheets contained in the project file were blank; however, the grants score report indicated a total score of 272 points for this project.

Adequate documentation of all aspects of the grant process is necessary to demonstrate compliance by the HPP with established guidelines and procedures for awarding and reimbursing grant projects.

**WE RECOMMEND** the DNR SHPO and the HPP:

- A. Establish clear guidelines to address conflict of interest situations involving the DNR and the SHPO staff and related parties. The DNR and SHPO should contact the State Ethics officers and the NPS regarding these conflict of interest situations. In addition, the SHPO and the HPP should ensure compliance with federal requirements for professional consultants reviewing or preparing nominations to the National Register for Historic Places. Further, verbal recusals of potential conflicts of interest situations should be clearly documented.

B&C. Ensure adherence to established HPF grant policies and procedures.

### **AUDITEE'S RESPONSE**

- A. *We disagree. There was no conflict of interest. The review by the State Auditor's staff affirmed on April 3, 2003, that they found no evidence that anyone from the department improperly exerted influence upon a decision for their own gain. The review by the Office of the State Auditor of our conduct related to potential conflicts of interest is particularly important to our department. The process we undertake to ensure integrity in our decision-making and to avoid conflicts is fundamental to our department's mission. We take this process very seriously.*

*The department director did not sign the grant approval issued to the city of Jefferson, which the city subsequently used to prepare a successful nomination for a historic district to the National Register of Historic Places. The director recused himself from the project. He evidenced the recusal verbally and in writing, by revoking a signature document and maintaining it as evidence of his recusal. He later forwarded a separate letter of recusal to the Director of the Division of State Parks who served as the deputy State Historic Preservation Officer. The grant requested by the city of Jefferson was recommended by the State Historic Preservation Program director and staff, the deputy SHPO, and the Governor appointed Missouri Advisory Council on Historic Preservation.*

*No competitive advantage occurred. Though not required by law, the department director and his wife have determined that neither will participate in a separate program allowing for individuals to request tax credits for specified rehabilitation work on qualified historic property for this project. The consultant who prepared the nomination for the city of Jefferson did so only after requesting approval from her supervisors, performing the work outside of the time she is employed by the department, performing the work outside the subject matter of her departmental job responsibilities, submitting the low bid on the project, and using information available to all Missouri citizens. The consultant was qualified for preparing nominations to the National Register. Her qualifications were independently reviewed for inclusion on a list of consultants.*

*The department has given additional guidance and training to staff regarding grant procedures and is updating existing guidelines to provide consistency in evidencing conflict of interest actions. In addition, the department is reviewing current practices for maintaining a state list of professional consultants and will make changes if appropriate.*

*B&C. We disagree in part. Please note the department's response above. We consistently seek to meet all state and federal regulations. The Historic Preservation Program received additional instruction and training and is reviewing current grant policies and procedures to ensure future grants are being processed consistent with those requirements.*

#### **AUDITOR'S COMMENT**

- A. The department's responses do not change the following facts noted by our audit:
1. The Director signed the preliminary grant approval in November 2000 for the Munichberg project, which allowed the grant process to continue.
  2. The Director signed the grant award in March 2001 and failed to adequately document any verbal recusal to staff or the intended actions taken regarding the signing and crossing through of this grant award. The Director's staff either ignored or forgot his verbal recusal and submitted the grant award document for the Director's review and approval. The Director did not formally document his recusal until May 1, 2001, five months after his initial involvement.
  3. No documented actions were taken in a timely manner to address the potential conflicts of interests and recusals even though this project was initially started in 1995, nearly three years before the Director's appointment as department director.

Furthermore, our review of the qualifications required to be a consultant was based on information provided by the HPP and the SHPO which included the grant application forms, discussions with the former division Director and the Deputy Director, and inter-office correspondence maintained in the grant file. It appears the HPP staff or the SHPO chose to ignore their own program requirements and the requirements noted specifically

on the grant application form, and failed to document their reasons for approving a consultant that did not meet these requirements.

<b>2.</b>	<b>Series 37(g) and Series 37(h) Bond Accounts</b>
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The DNR administers several grant programs which are funded by general obligation bonds. The bond series and the applicable purpose of the bonds we reviewed are as follows:

Bond Series	Authorization	Amount Authorized	Amount Issued	Purpose
Series 37(e)	Article III, Section 37(e)	\$275 million	\$159,494,240	Water pollution control and drinking water systems, rural water and sewer grants and loans, and storm water control grants and loans
Series 37(g)	Article III, Section 37(g)	\$100 million	\$35 million	Rural water and sewer grants and loans
Series 37(h)	Article III, Section 38(h)	\$200 million	\$45 million	Storm water control grants and loans

A portion of the Series 37(e) bonds (\$200 million) are used to fund the state's match of the Environmental Protection Agency (EPA) capitalization grants for the clean water state revolving funds. The EPA capitalization grant is a federal program, which is funded by the federal government at 80 percent of the grant award for each project. Of the remaining \$75 million from this bond series, \$50 million had been allocated for the rural water and sewer grants, and \$25 million had been allocated for the storm water grants. Based on the DNR records, there was approximately \$3.1 million available for storm water control grants at the end of fiscal year 2002 and projections indicate these funds will be fully expended by the end of fiscal year 2005. Approximately \$2.5 million is projected annually for rural water and sewer grants and loans through fiscal year 2009 from the Series 37(e) bonds.

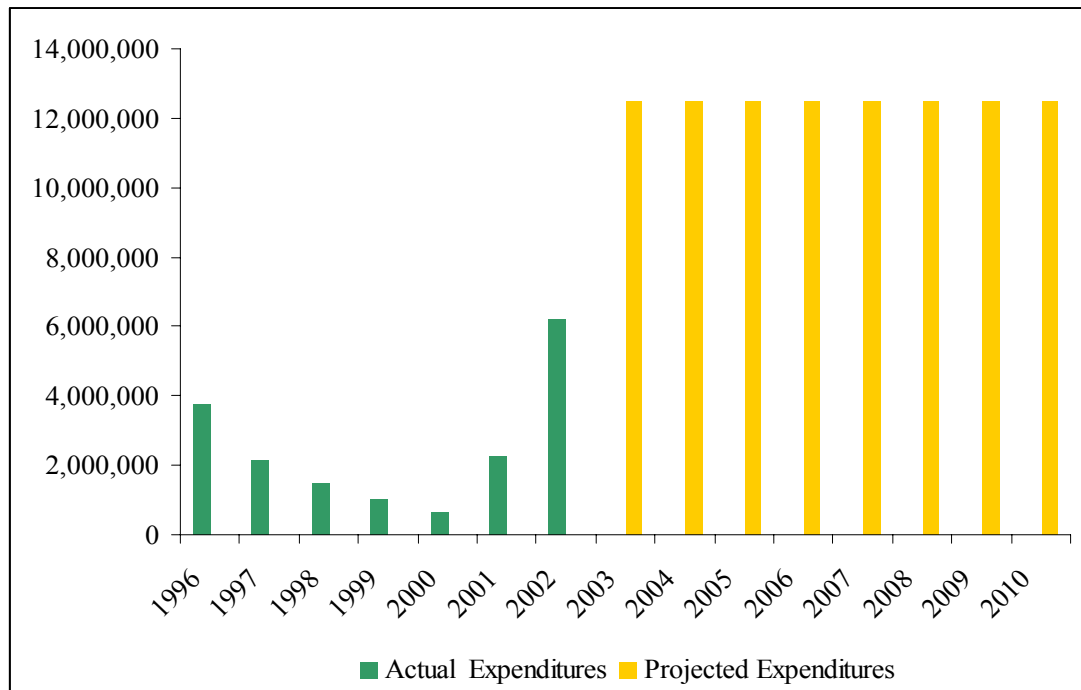
We also reviewed the cash balances in the Series 37(g) and Series 37(h) bond accounts and the related expenditures for rural water and sewer grants and loans and storm water control grants and loans which are fully state supported. The cash balances are maintained at fairly large amounts and future projections indicate the balances will continue to increase. The tables below list the actual beginning cash balance, revenues, expenditures, and ending cash balance in the Series 37(g) and (h) accounts held by the State Treasurer's Office through the year ended June 30, 2002, and projected cash balances, revenues, and expenditures through the years ending June 30, 2009 and 2010, respectively:

Series 37(g) Bonds				
Fiscal Year	Beginning Cash Balance	Revenues	Expenditures	Ending Cash Balance
2000	\$ 0	10,279,353	0	10,279,352
2001	10,279,352	10,671,905	542,478	20,408,779
2002	20,408,779	622,073	5,276,745	15,754,107
2003	15,754,107	15,916,856	10,000,000	21,670,963
2004	21,670,963	10,750,684	10,000,000	22,421,647
2005	22,421,647	10,781,268	10,000,000	23,202,915
2006	23,202,915	10,779,542	10,000,000	23,982,457
2007	23,982,457	10,811,302	10,000,000	24,793,759
2008	24,793,759	10,777,578	10,000,000	25,571,337
2009	25,571,337	10,842,591	10,000,000	26,413,928

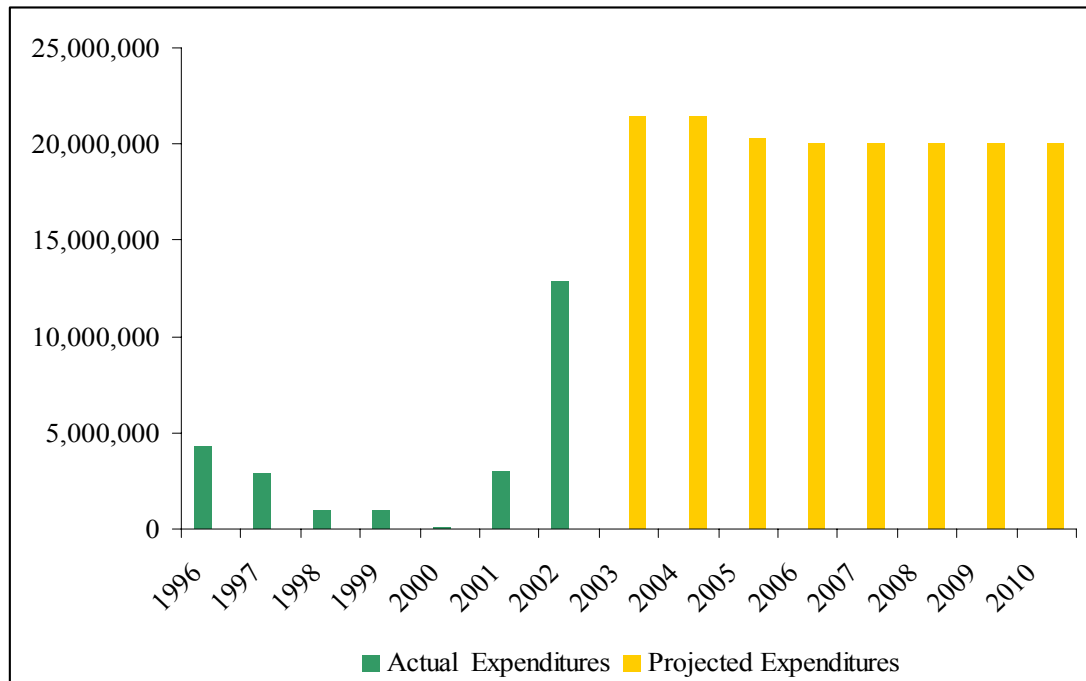
Series 37(h) Bonds				
Fiscal Year	Beginning Cash Balance	Revenues	Expenditures	Ending Cash Balance
2000	\$ 0	20,558,115	28,078	20,530,037
2001	20,530,037	11,290,331	2,411,277	29,409,091
2002	29,409,091	951,842	10,980,822	19,380,111
2003	19,380,111	16,101,825	20,000,000	15,481,936
2004	15,481,936	20,636,108	20,000,000	16,118,044
2005	16,118,044	20,662,024	20,000,000	16,780,068
2006	16,780,068	20,621,884	20,000,000	17,401,952
2007	17,401,952	20,647,221	20,000,000	18,049,173
2008	18,049,173	20,540,034	20,000,000	18,589,207
2009	18,589,207	20,628,702	20,000,000	19,217,909
2010	19,217,909	20,654,317	20,000,000	19,872,226

Projected expenditures for Series 37(e), (g), and (h) bonds for the rural water and sewer grants and loans and the storm water grants and loans are significantly higher than the prior years' actual expenditures as noted in the charts below.

## RURAL WATER AND SEWER GRANTS AND LOANS EXPENDITURES



## STORM WATER CONTROL GRANTS AND LOAN EXPENDITURES



The DNR staff indicated the projections are based on an industry standard construction curve for a 24-month project period. The 24-month curve assumes 50 percent of project costs would be paid by the twelfth month and 100 percent would be paid by the twenty-fourth month.

- A. The projected expenditures of \$10 million from the Series 37(g) bond account and \$2.5 million from the Series 37(e) bond account for fiscal year 2003 appear to be overstated. The total rural water and sewer grants that have been awarded, but not spent as of July 2002 totaled \$5,774,671. An additional \$4.3 million in projects are included on an anticipated rural sewer grants list (grants not yet awarded); however, since rural sewer grants and loans are awarded only after the bid process for the project has been completed, it is unlikely that the \$4.3 million in anticipated projects would be completed by the end of fiscal year 2003.

In addition, the total storm water control grants awarded during the years ended June 30, 2002, 2001, and 2000 that have not been expended as of July 2002 were \$8,429,363, \$9,902,778, and \$3,394,489, respectively. Only \$309,176 (3.1 percent of total grant awards) of the fiscal year 2001 grant awards and two-thirds of the fiscal year 2000 grant awards were expended by July 2002. Using the DNR 24-month curve expenditure projections, at least one-half of fiscal year 2001 grant awards, or \$5.1 million, and all of fiscal year 2000 grant awards should have been expended by July 2002. Therefore, the large proportion of unexpended grant awards indicates the 24-month construction curve is not a realistic measure for future projections of expenditures. In addition, fiscal year 2003 expenditure projections of \$21,416,312 assume all commitments (grants awarded and unexpended) would be paid by the fiscal year end. Based on these factors, the DNR appears to be over-projecting future expenditures for the storm water control grants and loans.

- B. Even with the increase in projected expenditures and large cash balances, the DNR continues to plan to issue Series 37(g) and Series 37(h) bonds. The following is a list of the actual bond issuances through fiscal year 2002 and projected bond issuances through fiscal year 2009:

Fiscal Year Ended June 30,	Series 37(g) Bonds	Series 37(h) Bonds
2000	10,000,000	20,000,000
2001	10,000,000	10,000,000
2002	0	0
2003	15,000,000	15,000,000
2004	10,000,000	20,000,000
2005	10,000,000	20,000,000
2006	10,000,000	20,000,000
2007	10,000,000	20,000,000
2008	10,000,000	20,000,000
2009	10,000,000	20,000,000



Principal and interest payments for these bonds are paid with state funds. The cost of issuing these bonds totaled \$71,642 for the June 2001 and October 1999 bond issuances. The total interest paid to date on the Series 37(g) and Series 37(h) bonds was \$1,817,929 and \$3,146,916, respectively. Based on the cost per dollar of the 2001 bond issuance, we estimate the state will spend approximately \$210,000 in bond issuance costs over the next 7 years.

It appears the DNR is over-projecting expenditures for the rural water and sewer grant and loan and storm water control grant and loan programs and in doing so, is planning to fund these programs by issuing Series 37(g) and Series 37(h) bonds every year through fiscal years 2009 and 2010, respectively, while building up large cash balances in the bond accounts. The large cash balances and sale of bonds do not appear necessary for the current obligations of these programs. The DNR should reevaluate the methodology used to project future expenditures for rural water and sewer grants and loans and storm water control grants and loans to determine more realistic projections based on current and future obligations without unnecessarily building up large cash balances in the bond accounts.

**WE RECOMMEND** the DNR reevaluate its methodology for projecting expenditures for rural water and sewer grants and loans and storm water control grants and loans to ensure that the sale of bonds for these programs is necessary to meet the current and future obligations of the programs without unnecessarily building up large cash balances in the bond accounts.

### **AUDITEE'S RESPONSE**

*The department agrees with the recommendation. The Office of Administration has their own timing and size requirements for the sale of bonds, and the department is not in total control of this procedure. The department feels that current projection methods are sound; however, we will review the methodology for bond sales with Office of Administration to seek improvements to the process.*

<b>3. Soil-State Sales Tax Fund</b>
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In 1984, the voters approved a sales tax of one-tenth of one percent for soil and water conservation and for state parks. In 1996, the voters renewed this sales tax until 2008. The sales tax revenues are split equally between the parks and the soil and water programs administered by the DNR. The State of Missouri collected soil and water sales taxes totaling \$36,220,270, \$35,230,984, and \$34,503,629 during the years ending June 30, 2002, 2001, and 2000, respectively. During our review of the soil and water program, we noted the following concerns:

- A. The Soil-State Sales Tax Fund's cash balance steadily increased during the three years ended June 30, 2001, and remained fairly constant during the year ended June 30, 2002, as noted below. In addition, the soil and water program (SWP)

continues to expend less than is budgeted each year. The SWP performs an annual analysis of how much soil is conserved and documents its future goals and objectives for the program; however, a comparison of soil conserved to resources spent annually and a long range plan, which quantifies the costs associated with meeting these future goals and objectives, has not been performed to determine how the sales tax revenues should be used. The officials of the SWP indicated they plan to increase the Soil-State Sales Tax Fund balance to ensure funding was available for the "seven year" SALT (Special Area Land Treatment) projects. The SWP estimates annual grant awards for SALT projects totaling \$6.9 million beginning in 2002 through 2007 and \$5.7 million in 2008. However, annual expenditure projections for the SALT program range from \$1.7 million to \$6.4 million over the life of the seven-year projects. Therefore, annual sales tax revenue is currently sufficient to cover future SALT expenditures without increasing the current fund balance.

Fiscal Year	Beginning Balance	Revenues	Expenditures	Ending Balance
2002	\$20,321,197	\$37,108,130	\$37,166,516	\$20,262,812
2001	14,605,379	36,456,451	30,740,633	20,321,197
2000	13,735,535	35,734,210	34,864,366	14,605,379
1999	10,523,769	33,698,792	30,487,026	13,735,535

In addition, 32 Soil and Water Conservation Districts (SWCDs) expended less than 50 percent of the landowner cost-share grants allocated to them in fiscal year 2001. District officials indicated the funding was not used due to a lack of cost share practices that are applicable or practical for use by landowners in their region.

The DNR and the Soil and Water Commission should perform a more detailed needs study to develop a long range plan which quantifies the costs associated with meeting its future goals and objectives and to determine how the sales tax revenues should be used. In addition, the DNR and Soil and Water Commission should consider implementing more conservation practices that are practical to all regions of the state to ensure the soil and water sales tax is used effectively.

- B. The SWP provides annual grants from the soil sales tax monies to each of the 114 SWCDs for administrative expenses such as salaries, supplies, travel, and related expenses to administer three landowner grant programs including a cost-share program, a loan interest-share program, and the SALT program, and to provide assistance to local landowners.

The SWP provided administrative expense grants to local districts to administer landowner grants during the three years ending June 30, 2002, 2001, and 2000. As noted in the table below, there were several districts that received administrative district grants exceeding 50 percent of the landowner grants distributed:

Fiscal Year	Number of Districts more than 50%	Landowner Grants	District Grants	Percentage Difference
2002	35	\$1,707,944	\$1,857,929	109%
2001	46	2,652,981	2,327,418	88%
2000	36	1,995,801	1,583,271	79%

During this three year period, the amount of the administrative expense grants in eighteen, twenty, and eight districts, respectively, exceeded the amount of landowner grants they administered. Furthermore, there were two districts each year that received over \$100,000 in funding for administrative expenses; however, the districts did not distribute any landowner grants during that time. While we recognize there are differences in geographic and demographic profiles among the districts within the state, there appears to be a problem in the methodology used to allocate funding if the conservation practices are impractical in some of the districts. The SWP should reevaluate how administrative expense grants are being allocated. If the districts are unable to distribute landowner grants due to a lack of need, it is not cost effective to continue to distribute significant administrative expense grants to those districts.

- C. The SWP currently provides a cellular telephone to each of the eight district coordinators and maintains four phones for temporary use by all employees. The costs for these phones are paid from the soil sales tax proceeds.

The SWP has adopted the Office of Administration guidelines for cellular phone usage, which states that cellular phones shall be used for minimal personal use. A clerk in the fiscal management section of the SWP reviews all cellular phone bills to identify personal calls; however, during our review of one of four cellular phone bills, we noted several personal calls made and there was no documentation of the clerk's review. In addition, the SWP was not reimbursed for these personal calls. The SWP should document detailed reviews of cellular phone usage to ensure established policies and procedures are followed.

- D. During our review of the SWP travel expenditures paid from soil sales tax proceeds, we noted expenditures totaling \$10,284, which appeared to be excessive as follows:

1. The SWP paid \$1,064 and \$930 for lodging at state parks outside of Jefferson City for 19 and 42 employees, respectively, who were all domiciled in Jefferson City, to attend planning retreats held in March 2000 and May 2001. The SWP also paid \$418 for an evening dinner at the May 2001 retreat. In addition, state vehicles were used to attend these retreats. Most of these costs could have been avoided if the retreats were held in Jefferson City.
2. The Soil and Water Commission meetings are held in various locations throughout the state to address SWP issues and to provide training to the

SWCD employees. The SWP does not limit the number of program employees attending the out-of-town Soil and Water Commission meetings. As many as 23 SWP employees attended each of the seven Soil and Water Commission meetings held outside of Jefferson City from July 1999 through December 2001. The travel expenditures incurred by employees to attend these meetings totaled \$7,872. In addition, employees used state vehicles to attend the meetings.

While we recognize planning retreats and allowing a limited number of employees to attend commission meetings may occasionally be necessary and/or cost-beneficial to administer the SWP, there are other more cost effective options the Soil and Water Commission should consider to eliminate unnecessary expenditures to the program.

**WE RECOMMEND** the DNR SWP and the Soil and Water Commission:

- A. Perform a more detailed needs study to develop a long range plan which quantifies the costs associated with meeting its future goals and objectives of conserving soil and to determine how the sales tax revenues should be used. In addition, the SWP should consider implementing more conservation practices that are practical to all regions of the state to ensure the soil and water sales tax is used effectively.
- B. Reevaluate how administrative grant funds are being allocated and determine the most cost-effective method. If a district is unable to distribute landowner grants due to a lack of need, the SWP and the Soil and Water Commission should determine a more cost-effective method to administer the program.
- C. Establish procedures to ensure documented reviews of cellular phone usage are performed and policies and procedures are being followed.
- D. Review travel expenditures for future retreats and out-of-town commission meetings to determine the most cost effective options for achieving the objectives of the program.

**AUDITEE'S RESPONSE**

- A. *The program agrees with the findings and recommendations. The Soil and Water Commission and the SWP continue to review and compare current programs, strategic plans and budgeting projections in order to develop more definitive planning information for soil conservation programs and sales tax resources. The SWP works with the United States Department of Agriculture (USDA) National Resource Inventory (NRI) statistics to prepare the Soil and Water Commission long term soil conservation objectives and resource needs and to ensure the Soil-State Sales Tax Fund balance remains sufficient for the long term program obligations.*

*The Soil and Water Commission has approved over forty soil and water conservation practices that meet federal and state technical specifications for district use in the cost share program and the special area land treatment program. The Soil and Water Commission will continue to consider each and every request for conservation practices based on the environmental and resource protection value.*

- B. The program disagrees with the findings and recommendations. The 114 soil and water conservation districts in the state are established by the local voters and their needs in each county/district in accordance with Section 278.100 RSMo. 2000. The districts are allocated landowner grant funding targets based on potential needs at the beginning of each year. The allocations and circumstances of each district are reviewed at mid-year and reallocated to the districts that are able to effectively obligate the funds by the end of the year.*

*The SWP grants to the districts generally provide only part of the funds used by the districts to conduct all of the local soil conservation information and education programs as well as to administer the other state programs. The districts use state grants along with their local resources to provide the most cost-effective district programs and services to all taxpayers within the district.*

- C. The program agrees with the finding and recommendation. The program will continue to conduct review procedures and close scrutiny of employee cellular use in accordance with the Office of Administration limited personal call cellular use policy. The audit noted one specific call by an individual who is no longer employed by the state.*
- D. The program agrees with the recommendations but not the findings. The program strongly believes that the department facilities, travel options, and their relatively small total costs used during the two and one half-year period reviewed by the auditor for the two personnel retreat events and four Soil and Water Commission meetings around the state were cost-effective in meeting program objectives. Average comparisons of authorized travel rates at the time of the events and availability of appropriate facilities appear to be reasonable and conservative.*

<b>4. Soil and Water Commission and District Minutes and Audits</b>
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- A. The SWP provides conservation services and funding to 114 SWCDs in Missouri. The SWP is administered by the Soil and Water Commission. The commission meets approximately once a month to review and approve SWP issues. The SWCDs are administered by district boards. The SWCD boards meet approximately once a month to review and approve SWCD issues. During our review of meeting minutes of both the Soil and Water Commission and four of the SWCD's we noted the following concerns:*

1. The SWP requires the SWCD's to submit copies of all district meeting minutes to the program office. During our review of these minutes, we noted several problems that went undetected by the SWP including:
  - The SWP did not have minutes on file for 19 meetings for the Bates County, Nodaway County, Saline County, and Texas County SWCDs during the period July 1, 2001 through December 31, 2001, and the years ending June 30, 2001 and 2000.
  - The June 2001 minutes of the Saline County SWCD indicated the board approved bonuses to district employees; however, this recurring problem was undetected by the SWP. Article III, Section 39 (3) of the Missouri Constitution prohibits bonuses to employees from state or local funds.
  - A Texas County SWCD board member participated in the vote to approve two of his own cost-share projects. The board member did not abstain from this approval, which resulted in a conflict of interest. Section 105.452, RSMo 2000, states "No elected or appointed official or employee of the state or any political subdivision thereof shall: (1) Act or refrain from acting in any capacity in which he is lawfully empowered to act as such an official... by reason of any payment, offer to pay, ... to himself or any third person,... by the state or political subdivision." The SWCDs are political subdivisions of the state, as defined by Section 105.450, RSMo 2000.
  - One project out of 28 reviewed was not approved in the SWCD minutes. Cost share projects should be approved prior to payment to ensure the project is eligible for the grant.

Without an adequate review of the district minutes, there is an increased risk that other problems will continue to go undetected. The SWP should ensure all minutes are submitted by the SWCDs as required and reviewed for potential problems.

2. The Soil and Water Commission closed meeting notes were not approved in the subsequent month's open or closed meeting minutes or notes, and the notes were not signed by the commission's secretary or chairperson. In addition, the Bates County SWCD's board meeting minutes were not signed by the board secretary and chairperson. All commission notes and board minutes (including those for closed meetings) should be approved by the commission and signed by the chairperson and secretary to attest to the accuracy of the matters discussed and actions taken during the meeting.
3. The Bates County and Saline County SWCD's board open meeting minutes did not always document the specific reasons for closing the

meeting. Section 610.022, RSMo 2000, requires that before any meeting may be closed, the question of holding the closed meeting shall be voted on at an open session. The vote and the specific reason listed in Chapter 610, RSMo 2000, for holding the closed meeting should be entered into the regular meeting minutes.

- B. Section 278.110, RSMo 2000, requires SWCD finances to be audited annually. Only 49 SWCDs received audits for the fiscal year 1999, which were the most recent audits contracted out by the SWP, and five SWCDs were audited between 1996 and 1998. The remaining 60 SWCDs have not been audited since fiscal year 1995. In addition, upon completion of the audits that were performed, the SWP reviewed the audit recommendations and required the SWCDs to provide responses to the findings including corrective action plans; however, the SWP has not ensured that the SWCDs complied with the corrective action plans. We reviewed the status of the findings in the contracted audits performed between 1995 and 1999 for four SWCDs and noted the following problems that had not been corrected:

1. The Saline County SWCD paid bonuses to employees totaling \$1,888 and \$400 in fiscal years 2001 and 2000, respectively. This problem was also noted in the contracted audit report for the two years ended June 30, 1994.
2. The Saline County SWCD paid an employee from the cafeteria plan without obtaining supporting documentation for the claim. The problem was also noted in the internal audit report for the three years ended June 30, 1998.
3. The Nodaway County SWCD does not have a policy for maintenance reviews of cost-share projects and does not perform maintenance reviews. The problem was also noted in the audit report for the three years ended June 30, 1995.
4. The Bates County SWCD allowed a board member to use a rental drill for no fee. The problem was also noted in the audit report for the three years ended June 30, 1995.

The SWP should ensure audits are conducted in accordance with state law. In addition, the SWP should implement procedures to follow up on prior audit recommendations to ensure compliance with corrective action plans.

- C. While the DNR-Internal Audit Section (IAS) performs audits at the district level at the request of the program, the IAS has not performed an audit of the internal controls of the SWP. In addition, the IAS reports findings noted in the contracted audits of the SWCDs and other audit issues to the SWP Director. To ensure the internal controls of the SWP are operating adequately, the DNR IAS should perform an audit of the internal controls. In addition, to ensure complete and

objective audit coverage, the IAS must be independent of the activities they audit. To achieve this independence with regards to the SWP, the IAS should report directly to the Soil and Water Commission.

**WE RECOMMEND** the DNR SWP and Soil and Water Commission:

- A.1. Ensure SWCD board minutes are obtained and reviewed for compliance with program requirements and state law for all meetings.
2. Ensure all Soil and Water Commission and SWCD minutes and notes are properly approved. To properly approve meeting minutes or notes, an affirmative vote must be taken of the board members present, and the board chairperson and secretary should sign the meeting minutes.
3. Ensure that SWCD regular meeting minutes document the reason(s) for going into closed session as required by state law.
- B. Ensure annual audits are conducted of the SWCDs in compliance with state law and proper follow-up action is taken on recommendations from contracted SWCD audits. This should include performing a follow-up review with the SWCD to ensure the audit findings are resolved.
- C. Ensure an audit of the internal controls of the SWP is performed by the DNR-Internal Audit Section, and require the IAS to report directly to the Soil and Water Commission.

**AUDITEE'S RESPONSE**

- A.1. *The program agrees with the recommendation but disagrees with the findings. The program does not wait until it receives copies of the final approved district meeting minutes in the program office to review district activities. Copies of the minutes are not approved and forwarded to the program office until they are approved at the next district meeting resulting in a delay of 30 to 60 days. The program district coordinator staff attend the district meetings and provide immediate assistance and feedback to the district as needed. The program does have annual reviews of office files for missing copies of minutes and has recently added a quarterly review to obtain the file copies as needed.*
2. *The program agrees with the recommendation and findings with exception to the references to closed session notes. The auditor's finding specifically references the notes of the Soil and Water Commission closed sessions as not being approved properly. The Soil and Water Commission and program use the Missouri Attorney General Office's written guidance which states that "Missouri Law does not require the Commission to keep minutes of closed sessions." Therefore approval of closed meeting notes is unnecessary. The issue will be placed on the Soil and Water Commission agenda for further discussion with legal counsel. The program will continue to provide follow-up*



*guidance to the districts to remind them of the correct procedures for approving meeting minutes.*

3. *The program agrees with the finding and recommendation. Some districts continue to have difficulty in using and documenting the appropriate wording in this area. The program continues to provide the guidance, assistance and training to the districts in this area.*
- B. *The program agrees with this finding and recommendations. The Soil and Water Commission and SWP have provided funding and requests annually to the department for the required annual district audit support. The program is working closely with the department internal audit section to accomplish the district audit requirements. The program views the audits to be a significant tool in helping to ensure the 114 districts' compliance on an annual basis. The program continues to coordinate follow-up and resolution actions between the districts and the department internal audit section as needed for the scheduled contract district audits.*
- C. *The program agrees with the recommendations. The program has established internal control plans in accordance with department and division initial guidelines. The plans are currently being reviewed by division staff and will be provided to the department internal audit section for their review and planning requirements.*

#### **AUDITOR'S COMMENT**

- A.1. If the program's ongoing reviews of office files and the district's activities had been entirely effective, we would not have expected the findings noted above. The program should also utilize the district minutes to identify potential problems and non-compliance with program requirements and state law.
- A.2. Although minutes of closed session meetings are not required, when minutes or notes are maintained they should be reviewed and approved at the subsequent commission meeting to ensure they accurately reflect the actions taken.

<b>5. Soil and Water Cost-Share Program and Financial Records</b>
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The soil and water cost-share program reimburses landowners for up to seventy-five percent of the installation costs of approved erosion control devices and the establishment of ground cover. To receive cost-share funding, an application must be submitted and approved by the SWCD board. Once the project is complete, the SWCD technician performs an inspection to ensure it meets technical specifications. The SWCD board reviews the reimbursement claim form and forwards it to the SWP for approval and payment. The SWP reviews the costs to determine if the project is allowable and the claim form is accurate. Payment is sent directly to the landowner upon approval of the SWP. If the SWP denies payment, the landowner or SWCD has the option to appeal the decision. The issue is then brought before the Soil and Water Commission for a decision.

- A. We reviewed cost-share practices at five SWCDs and noted the following areas in which the SWP has not been effective in providing technical management assistance to the SWCDs:
1. The SWP requires cost-share applicants to submit invoices that are marked paid; however, the applicants are not required to submit cancelled checks to support the amounts paid. We requested 24 landowners to send us copies of cancelled checks to support invoices submitted for reimbursement; however, only 15 responded. One landowner indicated he could not provide us with a cancelled check because he had bartered for the services provided and did not actually pay for the services, which were invoiced at \$11,498. Another landowner provided us with a cancelled check that was \$469 less than the amount indicated on the invoice. Without a copy of the cancelled check, there is little assurance that the paid amount indicated on the invoice is accurate.
  2. The SWP does not always require cost-share applicants to submit itemized invoices. The Soil and Water Commission has established a policy requiring invoices for cost share claims to clearly indicate the specific item or service provided; however, the commission also has an informal policy that allows landowners to write the item purchased on a credit card receipt instead of providing an itemized invoice. Without an itemized receipt, there is little assurance the items purchased are eligible cost-share costs.
  3. On six of the 26 cost-share projects reviewed, the date paid was not indicated on the invoices. In addition, the invoice date was not indicated on one of the invoices. Without an invoice date, there is no assurance the project was started after it was approved. According to 10 Code of State Regulations (CSR) 70-5.040 (3), the cost-share claim must include documentation of costs incurred, including the date payment was received and the vendor's verification of payment received.
  4. Documentation of the final reviews performed by the technicians was not retained in the six project files reviewed at the Cole County SWCD. The SWP should establish procedures to ensure the SWCDs retain the final reviews, which would support that technical reviews were performed and the project was completed within the established guidelines.
  5. The SWP paid a claim, that had previously been denied, without the Soil and Water Commission's approval. The cost-share handbook requires that once a claim has been denied, it cannot be paid without the express approval of the Soil and Water Commission. To obtain this approval, the landowner or SWCD must present an appeal during a Soil and Water Commission meeting. This claim was not approved or brought before the

commission. The SWP should ensure claims that have previously been denied are not paid without the approval of the commission.

- B. The SWP Director has delegated the task of approving cost-share claims to the fiscal administration section, along with the use of her signature stamp. Allowing the fiscal administration section to use the facsimile stamp increases the risk that cost-share claims would be paid inappropriately. In addition, it would be difficult to verify who actually approved the claim. To maintain controls over the approval of cost-share claims and the facsimile stamp, someone authorized to review the cost-share claim should sign the claim indicating approval, and the facsimile stamp should only be used by the SWP Director.
- C. One of the five SWCDs reviewed improperly disposed of equipment purchased with state funds. The Saline County SWCD sold five computers using a bid process; however, the district gave preferential treatment to board members and district employees who wanted to purchase these computers. The SWP policy prohibits SWCDs from reselling items purchased with state monies and requires the districts to return assets purchased with state monies to the state.

**WE RECOMMEND** the DNR SWP and Soil and Water Commission:

- A.1. Require cost-share applicants to submit copies of cancelled checks with the cost-share application, and ensure the amount indicated on the invoice corresponds with the actual paid amount.
- 2. Require cost-share applicants to submit itemized invoices with the cost-share application to ensure the items purchased are eligible for reimbursement.
- 3. Ensure invoices submitted for reimbursement by cost share applicants include the date paid and the invoice date.
- 4. Ensure cost-share files and claims contain adequate copies of all documentation required.
- 5. Ensure established procedures are followed regarding denied claims. The SWP should not pay any claims that have previously been denied without the approval of the commission.
- B. Discontinue the practice of allowing the fiscal administration section to use the SWP Director's facsimile signature stamp for cost-share claims. In addition, procedures should be established to ensure someone authorized to review and approve cost share claims document the review and approval.
- C. Ensure SWCDs dispose of equipment purchased with state funds in accordance with program policies and procedures.

## **AUDITEE'S RESPONSE**

- A.1. *The program disagrees with the finding and recommendation. The Soil and Water Commission and SWP program does provide effective technical management assistance to districts through policies and guidelines that do establish six acceptable methods, including cancelled checks, for the district boards to approve for cost-share applicants to use for supporting documents in validating payments. The Soil and Water Commission continues to approve the use of several methods to allow for the diversity of the voluntary cost-share applicant situations in the rural communities around the state. In accordance with Section 278.100.3, RSMo 2000 and state regulation 10 CSR 70-5.050, the district boards select and approve the claims with supporting documents and submit them to the SWP program for review. The SWP reviews the claims for completeness and the documents to support the claimed amounts. The SWP will place the auditor's recommendation on the Soil and Water Commission's next available meeting agenda for further consideration.*
2. *The program disagrees with the recommendation. The commission's existing policy does require itemized invoices. It also recognizes and allows for the fact some businesses only provide the customer with a cash register receipt that may not print descriptions of the items purchased. In the few situations where a landowner has to use a cash register receipt to document costs, the Soil and Water Commission's written policy allows the landowner's name to be written on the cash register receipt if approved by the district board. A credit card receipt can be used to document that the invoice has been paid but it must also accompany the itemized invoice and not be submitted in lieu of the invoice. The SWP will work closely with the districts to ensure policies are followed.*
3. *The program agrees with the recommendation. The date paid and invoice date is important to determine if it was made after the approval of the initial claim. Because of the volume of the receipt documents received in the program office, staff must periodically rely on the validation of the invoices and the dates involved by the local district board before they approve and forward them to the program office for processing. District board representatives are contacted to verify that the board has reviewed the dates of the projects and payments if there is question.*
4. *The program agrees with this finding. The district should be maintaining the assistance notes, technical maintenance files, and follow-up notes with the project files in accordance with program, and district policies and the program will continue to remind them to keep copies of all needed documents when possible. It should be noted that the United States Department of Agriculture (USDA) has determined that some of the technical information previously included in the landowner's file is no longer public information. Should an auditor need to verify this information, the USDA has indicated that the federal landowner file will be made available to the auditor for that purpose.*
5. *The program agrees with the recommendation. The program will continue to ensure that the landowners and districts that participate in the voluntary soil conservation programs are aware of the procedures for appealing denied claims. The audit noted one incident*

*whereby a district board and landowner refused to use the established procedures for appealing a denied claim to the Soil and Water Commission.*

- B. The program disagrees with the finding and recommendation. The finding indicates the facsimile stamp was being used to approve cost share claims for payment. Section 278.110.3 and 8 RSMo 2000 and state regulation 10 CSR 70-5.050 specifically require the local district boards to approve claims for payment and then submit them to the program office for review for completeness prior to transmittal to the Office of Administration for payment to the landowner. Claims are reviewed and initialed by program office technical staff. The current and previous program director(s) authorized specific administrative staff to use the stamp as the final indicator that the claim had completed the administrative review process. The director personally signs all other program official correspondence and communications. The program director and fiscal administrator will review the recommendation.*
- C. The SWP agrees with the finding and the recommendation. The SWP will continue to provide policies, procedures and guidance to the districts to follow regulatory guidelines, as well as good judgment in the disposal of public funded property.*

<b>6. Storm Water and Solid Waste Management Grants</b>
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The DNR administers various grants to local entities, including the storm water grant, the solid waste management district grant, and the solid waste management reduction grant. Storm water grants are used to construct drainage systems that help decrease soil erosion caused by excess rainwater. The solid waste management grants are used to assist solid waste districts and other entities in developing solid waste management activities. Funding for the storm water grants are provided from the sale of bonds authorized by the Missouri Constitution, Article III, Sections 37(e) and 37(h). Funding for the solid waste management district and waste reduction grants are provided in the Solid Waste Management Fund (SWMF), which is comprised of the portion of tonnage fees generated from the landfills and transfer stations throughout the state.

The Water Protection and Soil Conservation Division administers the Water Pollution Control Program (WPCP), which oversees the storm water grants. The Air and Land Protection Division administers the Solid Waste Management Program (SWMP), which oversees both the solid waste district grants and waste reduction grants. The DNR disbursed grant funds for these programs to local entities totaling \$34,827,000, \$22,829,000, and \$23,900,000 for fiscal years 2002, 2001, and 2000, respectively. During our review of these grants, we noted the following areas where improvements are needed:

- A. The DNR could not provide a listing of all state and federal grants disbursed to local entities. In addition, each division noted above coded the grant activity differently for approximately 26 various grants to local entities within the state's accounting (SAM II) system. As a result, the data cannot be accumulated or

reviewed for all grants. There is not a centralized accounting section within each division that is responsible for the management and coding of the grants to local entities in the SAM II system.

The DNR should establish procedures to centralize the accounting of all federal and state grants disbursed to local entities to ensure all grants are identified and properly monitored. In addition, a centralized accounting of all grant activity within each division would provide upper management with a tool to analyze and review grant activity within the division and the department for decision-making and long and short range planning.

- B. The storm water grant program provides funding for the development, planning, design, and construction of storm water control projects. The DNR disbursed storm water grant funds totaling \$2,840,672, and \$1,541,846 during fiscal years 2002 and 2001, respectively. Storm water grant appropriations are allocated to each first class county by a percentage based on the population of the qualifying county in relation to the total population of all eligible counties. To receive funding, entities within the county must submit an application to their local storm water coordinating committee for review and approval, and, once approved, the committee forwards the application to the DNR and the Clean Water Commission (CWC). The commission then approves funding for these specific projects in each county. Upon approval from the commission, the WPCP assigns a project coordinator to perform oversight duties for these grants. During our review of six storm water grant program files and 14 St. Louis Metropolitan Sewer District (MSD) files, we noted the following concerns:

1. The CWC does not adequately review storm water projects prior to approving funding. The CWC only reviews a brief description of the storm water project contained in the application prior to approving funding. Detailed project costs are not included in the application; therefore, a review of costs is not performed by the commission prior to approval. As a result, two of five projects reviewed totaling \$45,000, which were approved by the CWC, were later determined to be ineligible by a DNR project coordinator and engineer because they were not storm water related. The DNR allowed the county's local coordinating committee to apply the \$45,000 to alternate projects within the county rather than withholding the funding previously approved for these ineligible projects or asking the committee to submit new projects to the CWC for approval. The CWC and the DNR should consider revising the approval process to ensure only projects with eligible costs are approved for funding. In addition, if projects are determined to be ineligible, the funding allocated to the project should be withheld, and the county's local coordinating committee should be notified that they need to submit an additional project application for approval to receive funding.

2. The CWC does not review or approve grant amendments for changes in project costs. One project reviewed was originally approved on May 30, 2000, by the CWC for funding totaling \$41,650. This grant was amended on November 5, 2000, to \$92,328, and again on March 19, 2001, to \$62,611. Both grant amendments were not reviewed or approved by the CWC; however, the DNR disbursed grant funds in the amount of the final amendment. The CWC should review and approve all amendments to ensure all changes are in compliance with grant agreements.
3. The DNR allows the county's local coordinating committee to redistribute storm water grant funds from projects determined to be ineligible to alternative projects without the approval of the CWC. For example, in two of the ten projects reviewed, the CWC approved funding of \$100,000 and \$50,000, respectively; however, the funding approved for other projects totaling \$1,051,523 and \$425,000, respectively, were reallocated and applied to these projects. Although, the CWC had only approved \$100,000 and \$50,000 for these projects, the county spent \$1,151,523 and \$475,000, respectively, on the projects. There was no documentation in project files to indicate that the DNR or the CWC approved the reallocation of funds for these projects. The DNR and CWC should approve all changes to project funding to ensure costs are storm water related and to provide the oversight needed for administering the program grants.
4. The request for proposals (RFP) was not publicly advertised for one MSD project. In addition, advertisement of the RFP was not in the file for two other MSD projects. At our request, the DNR obtained these documents from the MSD. Regulation 10 CSR 20-4.061 (10) requires formal advertisement for all projects exceeding \$25,000. In addition, the DNR should ensure project files contain documentation of advertisements to document its compliance with state regulations.
5. A RFP for one of the 14 MSD projects reviewed was in the form of a lump sum bid request (sometimes referred to as a firm, fixed price). As a result, adequate work and line item descriptions were not included in the bids received; therefore, an adequate review and approval of project costs could not be performed by the DNR. In addition, the nature of a lump sum contract would require the project to be completed as specified in the project requirements and change orders would not be necessary; however, we noted change orders being submitted. Procedures should be established to ensure all RFPs are adequately detailed, projects meet program requirements, and are properly reviewed, including any change orders submitted.

6. The DNR did not document its review of the bid documents for four storm water projects and nine MSD projects reviewed. Regulation 10 CSR 20-4.061(10)(C) requires the DNR to document its review of project bids.
7. The bid tabulation sheet was not in the file for one MSD project. Regulation 10 CSR 20-4.061(9)(C) requires the grant recipient to forward the tabulation of bids to the DNR for review. The DNR should retain documentation of the bid tabulations to document compliance with state regulations.
8. The DNR did not document its approval of a bid which was not awarded to the lowest bidder and another bid which was a sole source vendor prior to the contract award for MSD projects as required by Regulation 10 CSR 20-4(10)(C).
9. The executed construction contract was not in the file for one storm water project and five MSD projects reviewed. Regulation 10 CSR 20-4.061(9)(C) requires the executed contract document to be submitted prior to the first grant payment. The DNR should retain documentation of the executed construction contracts to document compliance with state regulations.
10. The DNR did not document its review and approval of the project plans and specifications for three MSD projects reviewed. Without supporting documentation, there is little assurance that the plans and specifications for these projects were properly reviewed and approved by the DNR.
11. The DNR processed the final reimbursement claim for one project reviewed 469 days after receiving the original reimbursement claim form. The city requested a final inspection on February 16, 2001. On March 7, 2001, the city submitted the reimbursement claim and again requested the DNR to perform the final inspection. The DNR performed the final inspection on October 11, 2001. On October 18, 2001, the city again requested reimbursement. Because the city had not received payment as of April 4, 2002, an additional final reimbursement claim form was submitted to the DNR. The claim was finally processed on June 18, 2002, after we brought the reimbursement claim form to the project coordinator's attention. The claim totaling \$111,370 was finally paid by the DNR on July 10, 2002. The DNR should establish procedures to ensure reimbursement claims are paid in a timely manner.
12. The DNR did not document its review and approval of change orders totaling \$38,000 for two storm water projects and six MSD projects. The DNR staff indicated that change orders often have no effect on the grant amount due to established limits; however, the DNR should authorize all change orders to construction contracts to ensure any additional



expenditures represent valid and appropriate costs and that the contract amount was not exceeded.

13. Regulation 10 CSR 20-4.061(5)(I) states that construction costs incurred prior to the grant award are reimbursable as long as final payment was not made prior to the plans and specifications being reviewed and approved by the DNR. This allows the grantee to complete a project prior to the DNR awarding the grant. The requirement appears to conflict with 10 CSR 20-4.061(4) which states that the applicant must not advertise for construction prior to the DNR's approval of the plans and specifications. We noted eight MSD projects and two storm water projects in which construction had been started prior to the grant award; therefore, the DNR had not approved the plans and specifications prior to construction advertisement. We also noted three ineligible projects totaling \$121,736 in which the final payment had been made prior to the plans and specifications being reviewed and approved by the DNR which is in violation of the state regulation requirements noted above. The DNR should review and revise the regulations as necessary. In addition, the DNR should ensure final project payments are not made prior to the DNR review of the project's plans and specifications in accordance with state regulations.
14. Regulation 10 CSR 20-4.061(5)(J)2 states that costs associated with the planning and design phase for these projects are eligible providing they "were incurred in whole or in part during State Fiscal Year 1999." The DNR staff indicated that the intent of the CSR was to include only eligible costs incurred after fiscal year 1999. The CSRs clearly state that costs must be incurred during fiscal year 1999. If the intention of the program is to include costs incurred after fiscal year 1999, then the CSRs should be revised. For two MSD projects reviewed, no costs were incurred during the planning and design phase of the project during the fiscal year 1999; however, these projects received funding for costs incurred after fiscal year 1999.

Based on our review, there are many problems with the DNR's overall monitoring of storm water grants. The DNR should establish procedures to ensure state regulations and department policies and procedures are followed.

- C. The DNR SWMP provides funding through the SWMF to assist solid waste management districts in the development of an adequate infrastructure so that solid waste reduction, recycling, and resource recovery may become regular and affordable activities of local governments, industries, and citizens. These districts administer grant funds disbursed to subgrantees for projects within the district based on the Financial Assistance Agreement (FAA) with the DNR, the SWMP's Guidance Document, General Terms and Conditions, and Special Terms and Conditions. During our review of the SWMP's district grants, we noted the following problems:

1. Quarterly reports for the districts and subgrantees were not submitted to the DNR within the required timeframe. The DNR Guidance Document and Regulation 10 CSR 80-9.050(3)(B) requires quarterly reports to be submitted within 30 days of the close of each quarter. Five of six districts reviewed submitted quarterly reports 13 to 230 days late. In addition, the DNR had not notified four of the five districts with overdue reports in accordance with DNR policy. The DNR also notified the remaining district that its reports were late, 211 days after the grant was awarded. The DNR cannot adequately monitor the progress of the district grants if the quarterly reports are not completed and submitted in a timely manner.
2. The SWMP's Guidance Document and Special Terms and Conditions require the DNR obtain and review the independent audit reports for certain solid waste districts.

The DNR Special Terms and Conditions requires solid waste districts receiving \$200,000 or more of financial assistance in any fiscal year to provide a copy of an independent auditor's report on the fair presentation of the district's financial statements in conformity with GAAP; the internal control structure; and compliance with applicable laws and regulations. During our review of three of six district audits, we noted that the DNR does not ensure the audits contain the necessary reporting requirements.

- The DNR does not ensure the solid waste districts submit an audited report of expenditures within 90 days of the end of the fiscal year as required by Section 260.335.2(3), RSMo 2000. The DNR did not receive three of the six reports reviewed. In addition, the three other reports reviewed were received 138 to 213 days late.
- The DNR does not follow up on audit recommendations addressed in the district reports. The grant agreement between the SWMP and the districts require the district to address all deficiencies identified in the audit of the district to the satisfaction of the SWMP or face losing additional funding or be required to repay current funding.

The DNR should establish procedures to ensure all required audit reports are submitted in accordance with established guidelines to ensure the SWMDs comply with state regulations and program requirements. In addition, the SWMP should follow-up on audit recommendations to ensure all audit findings are properly resolved.

3. The DNR has established procedures requiring an onsite inspection to be performed once every fiscal year for each district. The onsite inspections are performed to determine the adequacy of the district's monitoring procedures and the effectiveness of on-going projects. During our review

of onsite inspections for six districts during fiscal years 2002, 2001, and 2000, we noted one district did not have an onsite inspection for fiscal years 2002 and 2001. Onsite inspections should be performed to ensure the projects, which were completed and/or begun since the last onsite inspection, meet program requirements and project specifications.

- D. The SWMP also provides funding through the SWMF to assist any entity meeting the qualifications for waste reduction and recycling projects, to develop current and future solid waste management activities in Missouri by reducing, reusing, and recycling or strengthening consumer demand for materials collected for recycling. During our review of six waste reduction and recycling grant projects, we noted the following problems:
1. Quarterly reports for the grantees were not submitted to the DNR within the required timeframe. Three grantees submitted quarterly reports 3 to 40 days late. The DNR's Special Terms and Conditions and Regulation 10 CSR 80-9.040(7)(A) requires quarterly reports to be submitted within 30 days of the close of each quarter. The DNR cannot adequately monitor the progress of these projects if the quarterly reports are not completed and submitted on a timely basis.
  2. The DNR did not ensure 15 percent of funds were retained from the grantee prior to performing the final inspection for four of the projects we reviewed. In addition, we noted the DNR issued the final grant payment for two projects without performing and documenting a final inspection. Regulation 10 CSR 80-9.040(8)(C) requires the DNR to retain 15 percent of funds from the grantee until the final report and accounting of project expenditures are approved.
  3. The DNR did not review supporting documentation for three projects reviewed because the grant recipients did not provide supporting documentation, such as an invoice marked "paid" or a cancelled check, for expenditures totaling \$296,306. The DNR's General Terms and Conditions and Regulation 10 CSR 80-9.040(8)(B) requires accounting records to be supported by source documentation such as canceled checks or paid bills. Without supporting documentation, the DNR cannot ensure expenditures were proper.

**WE RECOMMEND** the DNR:

- A. Centralize all federal and state grants within the department which should include a listing of codes used in the SAM II system to ensure all grants are identified and properly monitored.

- B. Approve only projects with costs eligible for funding. In addition, all grant amendments and changes to project funding should be reviewed and approved. The DNR should also establish procedures to:
- Ensure detailed RFPs, which include work and line item descriptions, are publicly advertised and are retained in accordance with state regulations. In addition, reimbursement claims should be processed in a timely manner.
  - Ensure the review and approval of bid documentation, project plans and specifications, and change orders are properly documented and retained. In addition, prior approval should be obtained in accordance with state regulations for contract awards, and all required documentation including an executed contract should be reviewed and retained prior to issuing grant payments.
  - Review and revise state regulations as necessary. In addition, the DNR should ensure final project payments are not made prior to the review of the project's plans and specifications in accordance with state regulations.
- C.1. Ensure quarterly reports are submitted to the SWMP by the SWMDs and the subgrantees within the required timeframe.
2. Ensure all required audit reports are obtained and received by the DNR within the required timeframe. In addition, the DNR should follow up on audit recommendations to ensure all audit findings are properly resolved.
3. Ensure onsite inspections are performed in compliance with department policy.
- D.1. Ensure quarterly reports are submitted to the SWMP within the required timeframe.
2. Ensure the SWMP retains 15 percent of funding from the grantee until the final inspection is performed in accordance with state regulations.
3. Ensure the SWMP obtains and reviews supporting documentation from the subgrantee, including paid invoices or canceled checks.

### **AUDITEE'S RESPONSE**

- A. *The department is in the process of reviewing the granting and subgranting process. We will consider this recommendation as part of the review.*
- B. *The Clean Water Commission's approval is obtained based on applications. Department staff are responsible for conducting technical reviews on behalf of the commission for each project submitted for storm water grant participation for eligibility. After the*

*commission has approved the applications and department staff has approved all required documents, those approved applicants formally bid out their projects.*

*The department does allow counties to redistribute monies to alternate projects. Because regulations do not prohibit the funding of alternate projects, applicants are encouraged to include them in their list of projects in their application. This allows flexibility to the counties should they encounter any problems with certain projects.*

*The department has developed a checklist to ensure that all documents are submitted, reviewed prior to processing grant reimbursement, and filed appropriately. The department will follow up more frequently on reimbursement claims that are incomplete for payment processing.*

*The department will re-evaluate the need to review change orders that do not affect the grant amount. The department will request copies of the executed contracts from grantees and place them in the appropriate file as they are received.*

*The rule (10 CSR 20-4.061(5)(I)) states that construction costs can be incurred prior to grant/loan award provided that all required documents are approved prior to final construction payment. Construction of a project may be complete but the project is not considered complete until the final construction payment is made. The project was eligible and costs were allowable. Funds were expended in accordance with the regulations. However, the department will evaluate the need to revise the rule to better reflect intent.*

- C.1. We agree. The SWMP continually strives to encourage the submittal of accurate and timely quarterly status reports pursuant to the Code of State Regulations and special terms and conditions. Methods to improve are discussed during annual district personnel guidance workshops. The grant manager sends an email quarterly status report submittal reminder to all district planners at the end of each quarter. If districts are unable to meet the deadline, they are to notify SWMP of the delay. Disbursements to a district are withheld if they are not current on quarterly status report submission or if there are pending audit findings.*
- 2. We agree. The SWMP did not have an audit of expenditures report/independent audit verification procedure in place at the time of audit. Following discussion with the state auditors, the SWMP has established a procedure. The districts will now be notified by email at the end of the state fiscal year as a reminder to submit an audited report of expenditures/independent audit within 90 days following the close of the state fiscal year. If the audited report of expenditures/independent audit is not received within the 90 days following the end of the state fiscal year, a certified letter with return receipt will be sent to the local executive district board advising them of the deficiency and that no funds will be disbursed until the report is received. This will be implemented once we receive the final audit report.*

*Upon receipt of the audit report of expenditures/independent audit, a review will be done to ensure any findings and or recommendations are resolved. A separate audit file will become part of the district's general SWMP file. The SWMP's reporting database has been modified to indicate the date of receipt and resolution of findings/recommendations.*

3. *We disagree. On site inspections are not required by statute or regulation. The site visits came about as a result of a monthly district planner's meeting when the district planners requested that we look into conducting district site visits. The program agreed that more site visits would be appropriate. These have the additional benefit of interacting with local district personnel and serve to get a sense of their operations, needs and issues. The site visits are not intended to determine the adequacy of the districts' monitoring procedures as cited in the finding. These self-imposed voluntary site visits were started in fiscal year 2000. While every effort is made to conduct these 20 annual site visits, staff vacancies and budget constraints have impacted this effort.*
- D.1. *We agree. With a qualification, for late quarterly reports, the project manager's only recourse is to contact the grantee by phone/and or email to advise them of the needed reports and that payments will be withheld until reports are received. The next step is to send a certified letter advising the grantee that if the reports are not received by a specific date, that they may lose the funding. The program strives to balance administrative requirements with project deliverables and environmental outcomes. The three projects cited for late quarterly reporting were all very successful projects.*
2. *We disagree. Rule or statute do not require final inspections. For those projects where we have a security interest, the asset is secured by filing the required Uniform Commercial Code form with the Secretary of State for equipment or capital improvements. For vehicles, the department is listed as the lien holder on the title. The program has asked the DNR regional offices to conduct site visits when requested, and provide reports on the equipment/vehicles or capital improvements. Site visits are not conducted and are not necessary for projects when there is no security interest. The 15 percent retainage is released to the grantee once the final report and the final accounting of project expenditures are approved.*
3. *We agree. While more supporting documentation would have been helpful, there was sufficient other documentation in the grant files for the three projects cited to show that the expenditures were verifiable.*

*The SWMP will use the final audit report as a training tool for the districts and grant managers. It is important to note that the audit findings were mostly procedural in nature and that there was no inappropriate use of state funds.*

The DNR administers various sewer grants to provide assistance to disadvantage communities, communities with a higher credit risk, rural communities and sewer districts, and to communities for phosphorous removal activities. To obtain funding for the various grants, an application must be submitted to the DNR. The DNR prioritizes each application according to the ranking criteria contained in 10 CSR 20-4.010. If the application is approved, a grant agreement is awarded. The DNR disbursed sewer grants totaling \$3,761,000, \$4,885,939, and \$5,061,751 for fiscal years 2002, 2001, and 2000, respectively. Of these amounts, \$1,005,842, \$1,563,550, and \$435,673, respectively, were federal funds. The remaining expenditures were from state funds. During our review of sewer grants, we noted the following problems:

- A. The DNR awarded a state forty percent construction grant on April 15, 1997, to the City of Reed Springs in the amount of \$635,800 to fund a wastewater treatment improvement project. The city's facility plan specifically incorporated a subdivision that was to be a part of the project. The DNR issued the project's final check to the city on July 6, 1998. Although the DNR indicated they were not aware that the city had refused to connect the subdivision to the city's waste water treatment plant until after the final inspection and final payment was made, the DNR did not ensure the city met all of the terms of the grant agreement as set forth in the city's facility plan prior to making the final grant payment nor did they notice during the final inspection that the subdivision was not connected as specified in the facility plan. In addition, the DNR failed to correct this situation or initiate recoupment of funds from the city until we requested information regarding this grant in November 2001 (3 years and 4 months after the final payment was made). Approximately \$143,000 was paid to the city by DNR that was directly attributable to the inclusion of the subdivision in the project. The DNR turned the case over to the Attorney General's Office in January 2002 for collection.

The DNR should require an adequate final inspection to be performed to ensure that all requirements of the facility plan and grant agreement are met prior to issuing the final grant payment. In addition, the DNR should ensure that proper and timely follow-up action is taken on projects which are in non-compliance of the grant agreement.

- B. The state forty percent construction grant provides funding to higher credit risk communities for construction of wastewater treatment facility. The DNR disbursed approximately \$2,197,235 and \$4,011,879 of these funds in fiscal years 2001 and 2000, respectively. During our review of six projects (other than the project discussed in part A. above), we noted the following areas where improvements are needed:

1. The DNR did not maintain documentation of approval of the final operation and maintenance manual for five projects reviewed. Regulation 10 CSR 20-4.023(20)(B) requires the DNR to approve each project's operation and maintenance manual before 90% of the project's construction is completed. Grant recipients are required by the DNR to submit a draft of the manual for review before 50% of construction is completed; however, the DNR should review the draft operation and maintenance manual, require the grantee to make any necessary changes, and then approve the final manual as required to provide assurance of the effective operation and maintenance of the construction project throughout the design life.
  2. The DNR did not document approval of the facility plan for one project reviewed. Regulation 10 CSR 20-4.023(9)(A) requires the DNR to approve the facility plan prior to award of grant funds to ensure the project is completed in accordance with grant provisions.
  3. The DNR did not document its approval of a reimbursement claim in the amount of \$167,232 for one project reviewed. To ensure all payments are valid and eligible costs of the grant, reimbursement claims should be reviewed for accuracy, completeness, and eligibility before payment is made.
  4. The DNR has not performed audits of these projects as required by Regulation 10 CSR 20-4.023(10), which states that audits should be performed of each applicant's financial management system to ensure fiscal integrity of public funds.
- C. The federal hardship grant provides funding to disadvantage communities that lack a centralized treatment or collection system or that need improvements to onsite wastewater treatment systems. The DNR disbursed approximately \$1,099,322 and \$435,673 of these funds in fiscal years 2001 and 2000, respectively. The DNR did not retain proper supporting documentation for a reimbursement claim totaling \$435,673 for the only project that received funding during these fiscal years. In addition, the DNR did not verify the mathematical accuracy of the invoices received. The grantee miscalculated a reimbursement request in the amount of \$4,752, which resulted in an underpayment to the grantee; however, the grantee later received the full amount of the grant. To ensure all payments are valid, reimbursement claims should be reviewed for accuracy and completeness before payment is made, and the DNR should contact the grantee to correct the under payments.
- D. The federal special infrastructure grant provides funding in conjunction with the state phosphorous grant to communities with a population of less than 50,000 and having wastewater discharges to the Table Rock Lake Watershed for phosphorous removal activities. The DNR disbursed approximately \$464,228 of these funds in



fiscal year 2001. The DNR did not document the approval of eligible costs for one of two projects reviewed. The approval of eligible costs is normally documented in the construction contract which was missing from the file. Without this approval, there is little assurance that the construction costs are eligible grant costs.

- E. The rural sewer grant provides funding to assist rural communities and sewer districts to finance sewer collection projects and to reduce the monthly sewer user charge to a reasonable level. The DNR disbursed approximately \$634,472 and \$614,200 of these fund in fiscal years 2001 and 2000, respectively. During our review of eight projects, we noted the following problems:
  - 1. The DNR did not have adequate documentation for the final inspection performed for four projects reviewed. At our request, the DNR obtained the final inspection reports from the contractor. Regulation 10 CSR 20-4.030(4)(B) states that the final grant payment cannot be made until a final inspection has been performed by the DNR. In addition, the DNR should ensure that all final inspections are documented before the final payment is made.
  - 2. The DNR did not maintain documentation of approval of the preliminary engineering study for two projects. Regulation 10 CSR 20-4.030(1)(C) requires the grant application to contain the preliminary engineering study for the proposed project.

Based on our review, the DNR has not complied with established guidelines and procedures for awarding and monitoring sewer grants. There appears to be an overall laxness in the DNR's handling of these grant monies.

**WE RECOMMEND** the DNR:

- A. Require an adequate final inspection to be performed to ensure all requirements of the facility plan and grant agreement are met prior to issuing the final grant payment. In addition, the DNR should ensure proper and timely follow-up action is taken on projects which are in non-compliance of the grant agreement.
- B. Ensure documentation is retained of the review and approval of the state forty percent construction grant projects including the final operations and maintenance manual, facility plan, and reimbursement claims. In addition, the DNR should ensure audits are performed in accordance with state regulations.
- C. Ensure supporting documentation is properly retained for all reimbursements and review reimbursement claims for accuracy and completeness.
- D. Retain documentation of the approval of eligible costs for all projects.

- E. Ensure supporting documentation of the performance of final inspections and the approval of preliminary engineering is retained.

**AUDITEE'S RESPONSE**

- A. *The department agrees with the recommendation. The department will review the adequacy of final inspections to ensure that all requirements of the grant agreement are met prior to issuing the final grant payment.*
- B. *The department agrees with the recommendation in part. The department has made sure that approval letters for the final operation and maintenance manuals, if required, are now in the file. Some projects reviewed did not require an operation and maintenance manual. Department project engineers will document when an operation and maintenance manual is not required and place in the appropriate file.*

*The department disagrees that audits need to be performed on all grantees' financial systems. The rule states that grantees are subject to audits of the state. It is not a requirement, unless the department feels it is necessary. The department will consider requesting copies of audits performed by others to be placed in the file.*

- C. *The department agrees with the recommendation. The department has developed a checklist to ensure that all documents are submitted, reviewed prior to processing grant reimbursement and filed appropriately. The department will retain all invoices supporting reimbursements in the file.*
- D. *The department agrees with the recommendation. The department will retain documentation of approval of eligible costs for all projects. The department has developed a checklist to ensure that all documents are submitted, reviewed prior to processing grant reimbursement and filed appropriately.*
- E. *The department agrees that the preliminary engineering report is required to be submitted with the application; however, it is not required to be approved by the department. These grants are made in conjunction with other grant programs whose administrators are required to do project reviews. The department will retain supporting documentation of the performance of final inspections and a copy of the preliminary engineering report in the file.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

DEPARTMENT OF NATURAL RESOURCES  
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Department of Natural Resources (DNR) was established by the Omnibus State Reorganization Act of 1974, which was revised in Section 640.010, RSMo 2000. The previous eleven independent agencies were organized into one department to provide management and administration over the state's natural resources. The department administers various programs for the utilization of the state's natural assets.

The department is organized into six divisions. The Office of Director oversees the operations and administration of the department. Each division is headed by a division director, who coordinates activities to meet the objectives of the department.

In addition, the department serves in an administrative capacity for numerous commissions and councils. The commissions and councils responsible for areas within the scope of this audit along with a reference to the respective authorizing statute are as follows:

<u>Commission/Council</u>	<u>Authorizing Statute</u>
Missouri Advisory Council on Historic Preservation	Section 253.022, RSMo 2000
Soil and Water Commission	Section 278.080, RSMo Supp. 2001
Clean Water Commission	Section 644.021, RSMo 2000

The department's primary sources of revenue are state appropriations and federal grant funds. The Clean Water Commission (CWC) receives monies from the issuance of voter-approved bonds. Also, in 1984 and 1998, voters approved a one-tenth of 1 percent sales tax for state parks and soil and water conservation. The sales tax will expire in 2008.

The Missouri Advisory Council on Historic Preservation has twelve members appointed by the Governor. Seven members must be professionals including at least one historian, architectural historian, architect, prehistoric archaeologist, and historic archaeologist, and five must be public members. Members continue to serve until a replacement is named. The council reviews the National Register of Historic Places nominations, reviews and provides advice on the state's Historic Preservation Plan, and provides guidance and advice to the State Historical Preservation Officer. The director of the Historic Preservation Program oversees the council's operation and administration. In August 1985, Claire F. Blackwell was appointed Program Director and served in that capacity until October 31, 2002. Laverne Brondel served as acting Program Director until February 14, 2003, when Mark Miles was appointed Program Director. Members serving on the council as of April 2003 were:

<u>Members *</u>	<u>Term Expires</u>
Timothy Baumann	November 2002**
Jeannie Cook	November 2002**
Robert Wieggers	November 2002**
Bruce Hensley	November 2003
William Foley	November 2003
Andrew Trivers	November 2003
William Wallace	November 2004
Antonio Holland	November 2004
Gary Kremer	November 2005
Timothy Conley	unknown
Gregory Allen	unknown

\* One council member's seat is vacant.

\*\* Although these terms have expired, these members still serve on the council.

The Soil and Water Commission has ten members made up of six farmers appointed by the Governor and four *ex-officio* members. The four *ex-officio* members are directors of the DNR, Department of Agriculture, and Department of Conservation, along with the dean of the University of Missouri-Columbia's College of Agriculture. Members continue to serve until a replacement is named. The commission has the authority to promulgate such rules and regulations as may be necessary to effectively administer a state-funded soil and water conservation program. The director of the soil and water conservation program oversees the commission's operation and administration. In October 1994, Sarah Fast was appointed Program Director and is currently serving in that capacity. Members serving on the commission as of April 2003 were:

<u>Farmer Members</u>	<u>City</u>	<u>Term Expires</u>
Elizabeth Brown, Chair	Fayette	August 2005
Larry D. Furbeck, Vice-Chair	Dearborn	August 2004
John Aylward	Memphis	August 2003
Leland Burch	Butler	May 2002*
Philip Luebbering	St. Thomas	August 2004
Kirby VanAusdall	Caruthersville	August 2003

<u>Ex-Officio Members</u>	<u>Title</u>
Stephen Mahfood	Director, Department of Natural Resources
Lowell Mohler	Director, Department of Agriculture
John Hoskins	Director, Department of Conservation
Thomas Payne	Dean, University of Missouri, College of Agriculture, Food and Natural Resources

\* Although this term has expired, this member still serves on the Commission.

The CWC has six members appointed by the Governor. Members continue to serve until a replacement is named. The commission has the authority to promulgate such rules and regulations as may be necessary to effectively administer a state and federally-funded water

pollution control program. The director of the water pollution control program oversees the commission's operation and administration. Ed Knight served as Program Director from July 1999 until March 2001. Scott Totten served as Program Director from March 2001 until April 2002. In April 2002, Jim Hull was appointed Program Director and is currently serving in that capacity. Members serving on the commission as of March 2003 were:

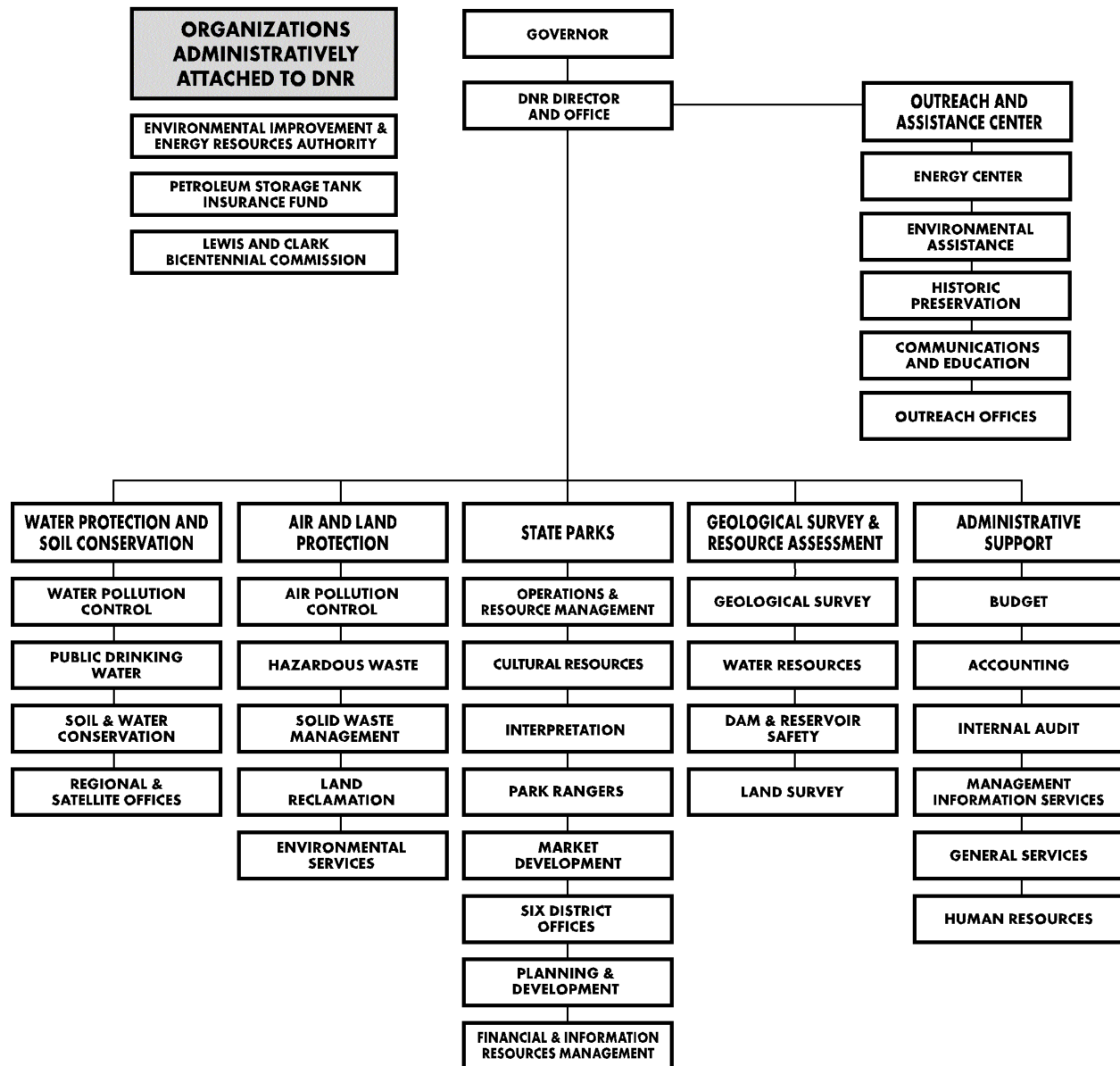
<u>Members</u>	<u>City</u>	<u>Term Expires</u>
Thomas Herrmann, Chair	Ballwin	April 12, 2004
Davis Minton, Vice-Chair	Dexter	April 12, 2004
Janice Greene	Springfield	April 12, 2005
Cosette Kelly	Kansas City	August 12, 2006
Kristin Perry	Bowling Green	April 12, 2004
William Easley	Independence	April 12, 2006
Paul Hauser	Des Peres	February 21, 2007

\* Although these terms have expired, these members still serve on the commission.

The director of the DNR is appointed by the governor and confirmed by the Senate. In January 1998, Stephen M. Mahfood was appointed Director and is presently serving in that capacity. As of June 30, 2002, the department employed 1,977 individuals.

An organization chart follows:

DEPARTMENT OF NATURAL RESOURCES  
 ORGANIZATION CHART  
 JUNE 30, 2002



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